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Dated 1ST FEBRUARY 1949.

[Despatch Abstract.]

TAX - Madras General Sales Tax Act, 1939 - Provincial Finance Ministers' Conference - Proposals regarding uniformity

Back Papers.

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G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.
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Copy of letter
No.F.15(1)-P/48
Government of India
Ministry of Finance.
New Delhi, the 6th December, 1948.

From
P.C.Bhattacharyya, Esquire,
Joint Secretary to the Government of India.

To
The Financial Secretaries of all Provincial Governments.

FINANCE MINISTERS CONFERENCE.

Sir,

I am desired to enclose herewith four copies of the proceeding of the Finance Ministers Conference held on the 30th and 31st October, 1948 together with a list of important points decided at the Conference, for the information of the Hon'ble Minister for Finance and necessary action by the Provincial Government.

2. The Government of India would be glad to have at an early date the views of the Provincial Government on the report of the Official Committee in regard to uniformity of sales tax on specified commodities (Appendix IX of the proceedings).

Madras & C.P.Berar only.

Yours faithfully,
Sd/-
Joint Secretary to the Government of India.

LIST OF IMPORTANT POINTS DECIDED AT THE PROVINCIAL FINANCE MINISTERS CONFERENCE.

Item of Agenda.	Points decided.	Action.
Item 3 Formulation of a uniform policy in the levy and administration of sales tax and its relation to Central Taxes.	(1) The conference was not in favour of centralisation of the sales taxes or of uniformity in all respects.	Central Govt.(Ministries of Finance and I & S) to note.
	(2) Report of the Official Committee in regard to uniformity of sales tax in respect of specified commodities (Appendix IX)	Govts. of Madras & C. & Berar, who were to examine the proposals further, send their reply to Central Govt. (Ministry of Finance).

Proceedings of the meeting of the Conference of Finance Ministers held on Saturday, the 30th October, 1948 and Sunday, the 31st October, 1948.

II. Formulation of a uniform policy in the levy and administration of Sales Tax and its relation to Central Taxes: (Item 3 of the agenda).

14. The Chairman stated that the main point for the consideration of the Conference was the desirability of establishing uniformity in regard to administration, assessment and rates. The lack of uniformity hindered the planned development of industry and trade on rational lines. This uniformity could be achieved in one of two ways. The sales tax might be centralised completely or the necessary measure of uniformity secured by agreement among the provinces. A third alternative was also open viz., legislation might be central and administration provincial.

15. At the request of the Chairman the Hon'ble Minister for Industry and Supply then addressed the Conference. He recalled the agreement reached in the Industries Conference held in December 1947 that there should be a uniform policy over the whole country regarding sales tax. The Conference would have to consider the detailed implementation of this decision and among the points to be decided would be:-

(a) Should uniformity apply to all goods or only to certain specific goods considered to be of industrial importance? If uniformity should be only in respect of selected commodities the items suggested were coal, iron and steel, basic chemicals, non-ferrous metals, rubber, cotton, silk, key minerals and petroleum products.

b) Should the sales tax be a single point tax or multi-point tax? If provinces with multi-point taxes could be assured that their present income from this source would not be reduced, they might perhaps consider accepting the single point system.

c) Should goods going out of a province be taxed by it? Orissa, U.P. and Madras now gave a rebate of 50% on exports, while Assam, West Bengal, Bombay exempted exports, C.P. and Bihar charged full duty on all exports. A possible compromise would be for the tax to be levied by the receiving provinces and shared by it with the exporting provinces.

d) Should purchase by the Central Government be exempt? Here again the practice had not been uniform and difficulties were frequently caused in fixing prices of controlled commodities if, as happened in the case of coal, arrear sales taxes had to be paid.

It was essential both for administrative convenience and the requirements of common industrial policy to have a uniform policy in this matter. Perhaps an official Committee should be set up to formulate proposals. If it was agreed that a common policy should be secured by legislation it would be necessary to amend the Constitution Act so as to place the sales tax in the concurrent list.

16. The Premier, U.P., agreed in principle that a single-point tax was preferable to the multi-point tax but experience in U.P. had shown that for certain commodities it was more advantageous to have the tax at more than one point. He thought that it would be inconvenient to centralise the sales tax and the provincial administration of the tax would be more economical than central administration.

He was prepared to accept a convention that exports to other provinces should not be taxed but felt that within a province the Provincial Government should be free to determine the appropriate rate of tax as only the internal consumers were affected. He was not in favour of exempting central purchases as the tax was collected on the entire turnover and not with reference to individual purchases. He also pointed out that provincial purchases were not exempt from Central taxation like customs duty. As regards cooperation with the Income Tax Department, he pointed out that the Provincial Sales Tax authorities were actually working in close co-operation with the Income Tax Department. He suggested that for bullion, motor cars, refrigerators, jewellery and ornaments there should be uniform rates of taxation as these articles could be easily carried from place to place.

17. The Premier of Orissa expressed himself definitely against uniformity as he considered it impracticable. He was also not in favour of exempting exports as Orissa, being primarily an exporter of raw materials, would lose considerable revenue by such exemption. He felt that a small tax on exports should not in any way dislocate trade or affect prices. He was of the definite view that the sales taxes should remain in the provincial field.

18. On behalf of Bombay it was agreed that there was a case for uniformity but as sales tax was the only flexible source of revenue left to the provinces it would be difficult to agree to its centralisation. Uniformity could however be secured in regard to exports, raw materials for industry and luxury articles. As regards essential commodities the Provincial Government had already exempted a large number of essential commodities. Bombay was in favour of a single point tax and would also agree that sales to a party outside the province and raw materials like steel, cement, paper, coal and cotton required for purposes of manufacture should be exempted. Bombay was not, however, in favour of allowing exemption of Central purchases.

19. The Finance Minister, East Punjab, mentioned that his province has recently introduced a single point sales tax. He was personally in favour of centralising the tax but this Government would prefer to maintain the present position. The Provincial Government would agree to exempt sales to parties outside the province, raw materials like cement, steel etc. purchases made by the Central Government and articles which enter into the cost of living of an average working class family except sugar which he thought was consumed mostly by the upper classes. The Provincial Government would secure close cooperation between their department administering the sales tax and the Income Tax Department.

20. The Finance Minister, Assam, said that he was not in favour of centralising the tax as he felt that central administration would be less economical and the distribution of proceeds among the provinces may raise problems of maldistribution. He agreed that if possible an agreement should be reached for sharing the taxes on exports. He was also not in favour of giving an exemption to central purchases unless there was reciprocity in the matter of central taxation.

21. The C.P. & Berar were also not in favour of centralising the sales tax or of uniformity. It was pointed out that a province could justifiably raise the tax if it would do so without injuring any one else. He however agreed that uniformity to some extent was desirable particularly in the case of luxury goods. The position in his province was also complicated by the fact that it bordered on a large Indian State like Hyderabad. In the case of

industrial raw materials also the Province would agree to some kind of uniformity. Like Orissa, he was not in favour of exempting exports.

22. The Finance Minister of Bihar generally supported the views expressed by the Premier of U.P. Bihar was not in favour of centralising the sales taxes as they considered that it would hot be efficient or advantageous from the point of view of the province.

23. On behalf of Madras it was stated that it was too early to think of a uniform policy with regard to sales taxes. Madras was looking to the sales tax as an expanding source of revenue and in the present circumstances it would not agree to any altered structure of taxation. Madras was also generally not in favour of exemptions but in certain cases like cotton exemption had been given. Where the multi-point tax was considered unsuitable Madras had levied a single point tax.

24. The Premier of West Bengal briefly explained the existing practice in his province in the levy of sales taxes. West Bengal preferred single point system as suited to its peculiar conditions. West Bengal was not in favour of giving exemption on Central purchases, unless a reciprocal arrangement was agreed to in respect of Central taxation.

25. The Chairman briefly summed up the results of the discussion. The Conference was not in favour of centralisation of the sales taxes or of uniformity in all respects, but it was in favour of uniformity in respect of specific commodities. The suggestion made earlier by the Minister of Industry and Supply that a Committee*, of officials of the Central and Provincial Governments should examine the matter further and make a report for the consideration of the Conference next day was also accepted.

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*Committee was composed of the financial Secretaries of all Provincial Governments and was convened by Mr. P.C.Bhattacharyya, Joint Secretary, Ministry of Finance, Central Government.

GOVERNMENT OF MADRAS.
REVENUE DEPARTMENT.

Letter No.61918-N/48-5, Dated 12th January 1949.

From

G.Venkateswara Ayyar, Esq., O.B.E., I.C.S.,
Secretary to Government.

To

The Secretary to the Government of India,
Ministry of Finance, NEW DELHI.

Sir,

Provincial Finance Ministers' Conference - Proposals regarding uniformity in the levy of sales tax.

From the Government of India, Ministry of Finance, letter No.F.15(1)-P/48, dated 6-12-48.

I am directed to communicate the views of this Government in regard to the proposals, which are dealt with seriatim.

Proposal I: "No sales duty should be levied on exports to other Provinces of the following commodities:-

Grains and pulses.
Flour.
Atta.
Maida.
Matches and
Kerosene".

Of the items mentioned above matches are the only commodity exported on an appreciable scale from this Province. The Madras General Sales Tax Act does not provide for the exemption of exports in general from sales tax. There is, however, provision for the grant of rebate of one half of the tax paid in respect of sales of certain articles of industrial manufacture for delivery outside the Province if delivery is actually so made. If the other Provinces agree to forego sales tax on exports of the commodities referred to in the proposal above, this Government have no objection to agree to the proposal. It may, however, be mentioned that what this Government will undertake to exempt from the levy of sales tax is the particular transaction which results in the export. If the commodity exported has, prior to the stage of export, paid any sales tax under ~~If the commodity exported~~ the system of multiple point tax prevailing in this Province, it cannot be helped. There will be serious administrative difficulties in levying the tax only at a single point in such cases.

Proposal 2: "A ceiling of 3 pies in a rupee should be fixed for the sales tax on the following industrial raw materials exported from one Province to another:-

Coal
Cement
Steel
Cotton and cotton yarn
Hides and skins
Oil seeds
Minerals and
Jute.

If the sales tax is levied subject to this ceiling by the Province exporting the material, the Province importing it

should not charge any further sales tax, if sold to a registered manufacturer for purposes of his manufacture."

It is presumed that the object of this proposal is that the cost of the basic raw materials of industry should be kept as low as possible in order to give a fillip to production.

Of the commodities other than oil seeds mentioned above, the sales of cotton are totally exempt from sales tax in this Province at present. Cotton yarn (other than handspun yarn) is subject to a single point tax of one half of one per cent. Hides and skins are subject only to a single point tax of 3 pies in the rupee. This Government have no objection to the acceptance of the proposal except in regard to oil seeds. They consider that industries based on oil seeds as raw materials are not so important from the point of view of general industrial development as industries based on coal, steel, etc.

While they are prepared to accept the proposal except in regard to oil seeds, this Government entertain serious doubts about the utility of this proposal in increasing production. If the object of the proposal is to keep the cost of the basic raw materials of industry low in order that production may be stimulated much, the more effective course is to devise means for eliminating middlemen whose profits it is that swell the prices.

Proposal 3: "A ceiling of 3 pies in a rupee should be fixed for the sales tax on the following goods exported from a Province:-

Textiles
Plant and machinery
Vegetable oil products and
Sugar.

It will be open to the Province to levy a further tax on internal consumption if it so likes"

This Government accept the proposal except with regard to "vegetable oil products". As stated in respect of proposal (1), it may be pointed out that what this Government are prepared to exempt from the levy of sales tax is the particular transaction which results in the export and they cannot guarantee that the commodity does not pay any sales tax prior to the stage at which it is exported. It may be observed however, that in the case of these articles the importers would ordinarily import direct from the manufacturers.

Proposal 4: "A uniform tax of 1 anna in the rupee (3 pies in the case of bullion and specie) should be levied on the following luxury articles:-

Bullion and specie,
Jewellery
Refrigerators
Motor vehicles
Radios and
Gramophones.

This tax should be levied at the point at which sales take place to the actual user."

This Government are unable to accept the proposal except with regard to bullion and specie, They feel that uniformity in the rate of tax is desirable in respect of bullion and specie in order to ensure that the trade is not diverted from one Province where the rates are high to another where the rates are lower. With regard to the rest of the proposal, they feel that there is little

reason why uniformity should be sought to be imposed on all the Provinces. Whether, in a particular Province the consumers of the luxury articles mentioned above can bear a particular rate of tax or not is a matter that is best left to the judgment of the Provincial Government and there are no over-riding considerations in favour of this proposal such as can be urged in respect of proposals 1 and 2.

Proposal 5: "No Province should charge any sales tax on a commodity exported by it if on that same commodity it does not levy a tax on its internal consumption".

There is no commodity the export of which is subject to sales tax in this Province while the internal sales are exempt. This Government accept the proposal

Proposal 6: "No sales tax should be levied on agricultural implements worked by human or animal power"

This Government accept the proposal in principle subject to a satisfactory list of implements to be exempted being drawn up.

Proposal 7. "In the case of commodities subject to multiple point sales-tax, the ceiling prescribed above should apply to the total incidence of the tax"

The proposal is accepted subject to the remarks made earlier with regard to the other proposals.

2. I am directed to state that steps will be taken to amend the Madras General Sales Tax Act, 1939 to give effect to the proposals referred to above after intimation has been received that the other Provincial Governments have accepted the proposals. This Government would like to suggest that in the event of the proposals being accepted by all the provinces and states, the Government of India may fix a suitable date on which all provincial and State Governments may be asked to give effect to them.

Yours faithfully,

Sd/- xx (V.Narasinga Rao)
For Secretary to Government.

GOVERNMENT OF MADRAS.
Abstract.

TAX - Madras General Sales Tax Act, 1939 - Provincial Finance Ministers' Conference - Proposals regarding uniformity in the levy of sales tax - Papers - Recorded.

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REVENUE DEPARTMENT.

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G.O.Ms.No.248. Dated 1st February 1949.

ORDER:

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(True copy)

A. Thiagaraja 1.2.49

OFFICE ASSISTANT, M.R.O.

KRVD.23.12.